THE EMPOWERED INVESTOR

Your guide to becoming financially secure.
FOREVER

Tulett, Matthews & Associates

You want to be financially secure. Forever

You shouldn't feel in the dark about your financial future. You've worked hard to get where you are, putting money aside, sacrificing and saving today to provide for tomorrow. You want to know that you're doing the right thing with your investment portfolio and your retirement savings. But you may still feel unsure. Does it feel like there are too many choices and too many voices telling you how to invest?

It's no wonder that so many people fall prey to self-doubt and second-guessing, or that others are frustrated with and alienated by the complexity of the process.

For more than twenty-five years, we have been listening to hard working Canadians just like you, and guiding folks to concrete plans of action that safeguard their financial security.

You deserve transparent, conflict-free advice that puts your interests first. You deserve access to the knowledge and insight of the best minds in the financial industry. You deserve a solid, sensible strategy that will build and protect your wealth. And you deserve to stop worrying about the future.

The Empowered Investor Guide cuts through the noise and confusion to focus on the winning principles of evidence-based investing, an approach supported by decades of sound academic research. Dispensing with hype and hyperbole, The Empowered Investor describes proven investment and planning strategies and explains how to integrate them into a comprehensive roadmap for achieving your goals and safeguarding your financial future.

It is our hope that this guide will serve as a call to action to make you rethink your future and start pulling everything together in order to increase the odds of long-term financial security.

Sincerely,

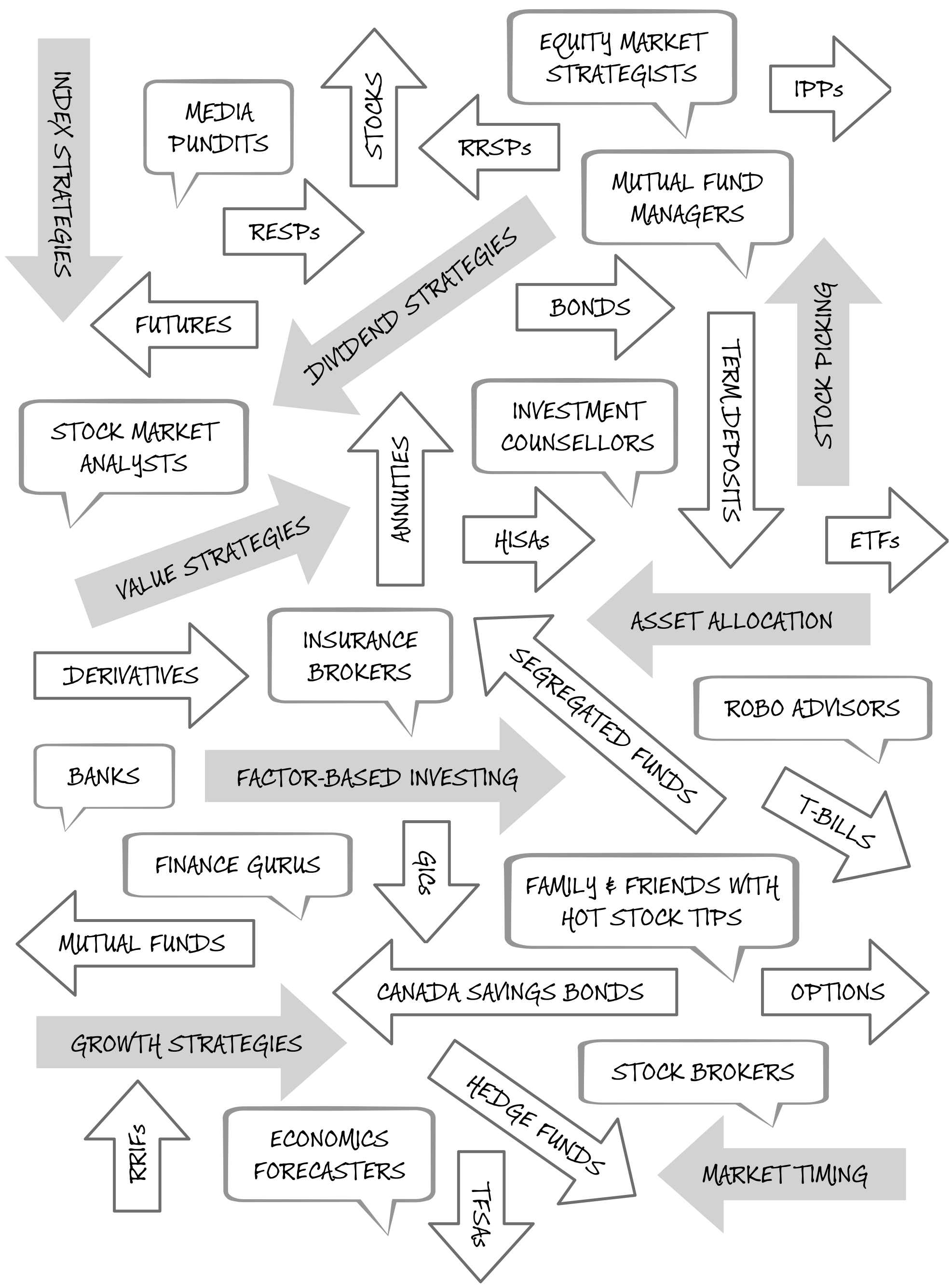
Keith Matthews
Partner & Portfolio Manager
Tulett, Matthews & Associates

Contents

Too many choices, too many voices

There are hundreds of strategies, thousands of advisors, and seemingly endless—and often contradictory—lists of do's and don'ts. In the face of so many options and opinions (see figure 1), even the thought of trying to plan your investments and your retirement can be daunting.

FIGURE 1: TOO MANY CHOICES AND TOO MANY VOICES



Tune out the noise

The most important lesson you need to learn as an investor is that all of the voices—all of the advice, predictions, forecasts, and recommendations—whether they originate in the financial industry, the media, your social and professional networks, or your own mind, are all just so much NOISE. And because listening to this noise—no matter how trustworthy the source—and letting it affect your emotions and influence your decisions, can have devastating consequences for your investments, the most critical skill you need to develop is the ability to tune it out.

Noise originates in these areas:

- The Investment Industry
- The Media
- Your Social and Professional Networks
- Your Own Mind

Without this ability, the sheer volume of voices and choices can buffet and bemuse you, leaving you more in the dark than ever and unable to take full advantage of the winning strategies discussed later in this guide.

Avoid the Seven Deadly Sins of Investing

Worse yet, being distracted by the hype and hubbub increases your vulnerability to committing one of the "seven deadly sins" of investing, seven common investment mistakes that can sabotage your portfolio and your future financial security.

The Seven Deadly Sins

1. Not defining an investment philosophy
2. Not understanding the mathematics of a sustainable retirement
3. Basing portfolios on predictions
4. Trying to outsmart the market
5. Chasing performance
6. Not diversifying properly
7. Letting emotions and behavioural biases hold sway

Your path to financial security

1. Create your retirement plan
2. Create your investment plan
3. Embrace evidence based investing
   - Invest in Asset Classes
   - Practice smart diversification
   - Choose indexing/passive management
   - Add factors to increase returns

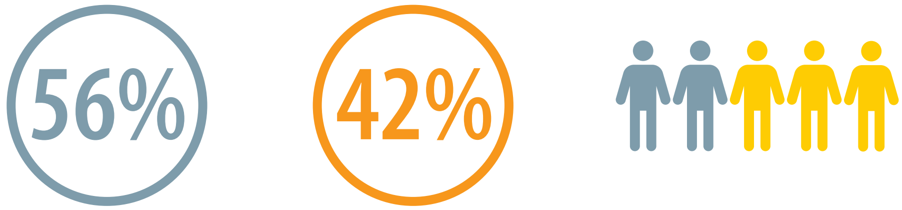
Step 1: Create your retirement plan

You want to know that you're going to be financially secure forever. In order to do so, you need a plan to bring your financials together. Having worked as a guide with Canadians for over 25 years, we have learned that there are two key planning elements to ensure your long-term financial security:

1) Your retirement plan
2) Your investment plan

A retirement plan is crucial and everyone must have one. Innovative Research Group conducted extensive research for the Ontario Securities Commission on the state of affairs among Canadian pre-retirees over 50. They released their comprehensive report in the fall of 2016. Here are some of their findings:

PRE-RETIREMENT PLANNING STATUS:



Do not have a retirement plan

Are afraid of running out of money during retirement

2-in-5 have no idea of the amount required to fund their retirement

Source: Innovative Research Group

Guidelines to building a sustainable retirement:

For those who are serious about planning for the future, a comfortable retirement is still within reach. In order to fund a sustainable retirement, (let's say from 65 to 90 years of age) one must have either pensions, savings or both. The pensions and savings that you build over your working lifetime will determine your retirement cash flows and lifestyle capabilities.

Savings guidelines:

For individuals without private or public sector defined benefit pensions, a general savings target should be between 15 and 20% of gross family income – regardless of family income level. If you start saving later in life, (at say 40 years of age) then the savings rate must be higher to account for the ten to fifteen years of lost compounding opportunities.

Burn rate and retirement spending guidelines:

Sustainable withdrawal rates help us understand how long our savings can last during retirement. Sustainable portfolio withdrawal rates are between 3.5% and 4.5% for 65-year olds wishing to have sufficient capital to last until their early 90s. This assumes a diversified, balanced portfolio throughout retirement.

THERE ARE FOUR BASIC STEPS TO SOLVING THE MATH OF YOUR RETIREMENT PUZZLE:

1 CALCULATE YOUR ANNUAL RETIREMENT LIFESTYLE − 2 ALL PENSION REVENUES (NET PAYMENTS AFTER-TAX) = 3 ANNUAL RETIREMENT FUNDING GAP

4 $\frac{\text{ANNUAL RETIREMENT FUNDING GAP}}{\text{AFTER-TAX ACCUMULATED RETIREMENT SAVINGS}}$ = % YOUR BURN OR WITHDRAWAL RATE

Bringing it all together

Empower yourself and start retirement planning now.

Empowered investors must strive to save enough throughout their lives to have sustainable portfolios by the time they retire. The above framework is a great place to start thinking about your retirement. However, retirement projections using planning software are recommended to increase accuracy and clarity around your retirement plan. We recommend doing so at 40, 50, and 60 years of age, just prior to retirement, and every three to four years during retirement. One of the reasons 56% of pre-retirees are stressed about retirement planning is because they are NOT doing retirement planning. Empower yourself and start now.

Step 2: Create your investment plan

This step will focus on the actions you need to take with your investments. By familiarizing yourself with these concepts, you will empower yourself to become a more aware and disciplined investor.

An investment policy statement (IPS) is a written document (your investment plan) that you or your advisor create to keep you and your investments on track. The IPS brings clarity, vision and discipline to the investment process and allows you to overcome Noise.

The IPS brings clarity, vision and discipline to the investment process

While a retirement plan encompasses the many different aspects of your financial affairs; the focus of an IPS is the ongoing management of your long-term portfolio. Developing the different components of an IPS requires careful thought and analysis. The components of your investment plan are noted below:

YOUR INVESTMENT PLAN

- Investment goals
- Return expectations
- Time horizon
- Explanation of risks
- Investment philosophy
- Asset classes
- Asset allocation
- Tax situation
- Investment costs
- Reporting investments
- Monitoring investments
- Evaluating investments

Embrace the IPS process — it's yours!

The process of creating and maintaining an IPS will ultimately empower you to set the winning conditions for a better long-term investment outcome. The ongoing IPS dialogue with a trusted advisor will provide you with a better long-term investment experience and make you more aware of how markets work, allowing you to set realistic objectives and reduce the number of future surprises.

Step 3: Embrace Evidence-Based Investing

Now that you've created an investment policy statement to define how you will approach the management of your portfolio, it's time to dig deeper into the winning principles of successful long-term investing. Understanding these principles is a crucial step to ensuring the safety of your financial future. In doing so, you will prioritize a sustainable, farsighted and healthy philosophy and leave behind the short-term focused, emotion-driven bad habits that can affect many of our most important investment decisions. These principles make up what we refer to as evidence-based investing.

Both market timing and stock picking are driven by Noise

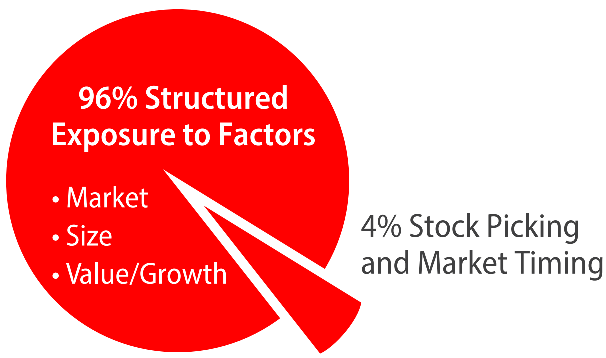
There are three basic types of investing options available to you. These are market timing, stock picking and asset class investing. Market timing and stock picking are based on the belief that someone can either predict the future or gain by analyzing the errors of others. Wall Street and Bay Street firms spend billions of dollars trying to convince investors that it is possible to out-predict the competition.

Both market timing and stock picking are driven by Noise. Evidence-based investing is different. Instead of being based on speculation or emotion, it is based on evidence that includes decades of data and academic research. Some of the top minds in academic finance over the last 70 years have worked to apply scientific and mathematical methods to decipher where investment returns come from. Their work has won many honours, including Nobel Prizes in Economic Sciences. It is time to put these strategies to work in your portfolio.

Step 3a: Invest in Asset Classes

Asset class investing is the most prudent and successful long-term investment management strategy available to Canadian investors. More so than any other deciding factors (such as market predictions, investment TV shows, manager strategies, newsletters, or the latest trendy ideas), asset allocation research shows that over 96% of the variation in returns is due to three risk factor exposures (see the chart below). These risk components are: equity markets vs. bonds, small company stocks vs. large company stocks and value company stocks vs. growth company stocks.

PORTFOLIO STRUCTURE AND ASSET ALLOCATION DETERMINE PERFORMANCE:



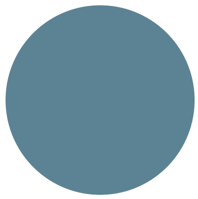
Source: Dimensional Fund Advisors

Asset allocation is one of the most important decisions investors and advisors must make, and that is why it should be the cornerstone of your investment philosophy.

Step 3b: Practice smart diversification

Most investors know that it is prudent to diversify, but do they truly practice diversification in their portfolios? Good asset class diversification occurs when many distinct and productive asset classes are added together to build an effective, long-term portfolio strategy.

Practicing smart diversification across market segments can help manage overall risk. But diversifying within your home market may not be enough. Global diversification can broaden your investment universe.



S&P/TSX Composite (1991 to 2017)[1]
Canadian model Equity Index Portfolio

Annualized Return (%)	8.74
Annualized Standard Deviation (%)	13.87

Globally Diversified Portfolio (1991 to 2017)[1]
Global model Diversified Equity Index Portfolio

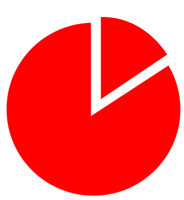
Annualized Return (%)	10.05
Annualized Standard Deviation (%)	11.23

· BETTER RETURNS
· LOWER RISK

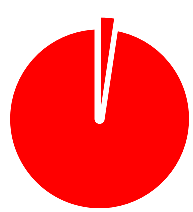
Step 3c: Choose index or passive management

Over the long-term, few actively-managed strategies have been able to match index or asset class returns. The pie charts below show the low percentage of actively-managed strategies that have outperformed relevant benchmarks in the last ten years ending June 30th 2018.

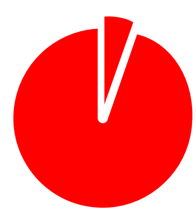
MOST ACTIVELY MANAGED STRATEGIES DO NOT OUTPERFORM RELATIVE BENCHMARKS:



Only 11.11% of Canadian equity funds beat the S&P/TSX



Only 2.33% of U.S. equity funds beat the S&P 500 Index



Only 4.79% of International equity funds beat the S&P Large/Mid Cap Index

Source: Standard & Poor's Indices Versus Active Funds Scorecard, June 30, 2018

The good news is that Asset Class Strategies that track asset classes and indices are available to private client investors around the world.

There are many reasons why we prefer to use index (in the form of Exchange Traded Funds) or passively-managed asset class investments (in the form of Dimensional Fund Advisor funds) when building and managing long-term diversified portfolios. Long-term performance is one of them. Other benefits to your portfolio include: transparency, no manager drift risk, low fees, lower survivorship risks, and higher levels of tax efficiency.

Long term performance is one reason we prefer index class investments

Step 4: Add factors to increase returns

Academic research has identified these equity and fixed income dimensions, which point to differences in expected returns. Investors can pursue higher expected portfolio returns by structuring their portfolios around these returns.

DIMENSIONS OF EXPECTED RETURNS:

EQUITIES

Company Size	Relative Price	Profitability
Small cap premium- small vs. large companies	Value premium- value vs. growth companies	Profitability premium- high vs. low profitability companies

FIXED INCOME

Term	Credit
Term premium- longer vs. shorter maturity bonds	Credit premium- lower vs. higher credit quality bonds

Manage Your Emotions

In addition to these four pillars of evidence-based investing, investors must concentrate on controlling their emotions to help protect themselves against Noise. Our brains are not wired to make us good at investing. Our emotions and biases can cloud our judgment and make us do things that are counter-productive or even self-damaging. It is important that we take the time to control them; otherwise they will take control of us.

Look Beyond the Headlines

Daily market news and financial media headlines can convince investors that they need to take action to protect themselves from harm or to take advantage of a great opportunity. Your long-term philosophy is not built on a foundation of short-term decisions. Stay disciplined, follow your plan and focus on playing the long game. Doing so will result in a more positive investment experience.

Step into the light

In reading *The Empowered Investor Guide*, you are taking take the first step to gaining control of your finances and replacing anxiety, frustration, and confusion with confidence, enlightenment, and a clear path to long-term financial security. As an empowered investor, you will leave the darkness behind and step into the light.

Clarity, focus, and knowledge are empowering for every endeavour in life. At Tulett, Matthews & Associates, it is our sincere hope that this guide has illuminated a path that can help carry you to financial security.

Your investment and retirement strategy is all about transforming not merely your finances, but yourself.

If there is ever anything about this guide you would like to discuss, or if you are ready to take advantage of these strategies, please feel free to reach out to us. It would be our pleasure to see if we can help.

Sincerely,

Keith Matthews
Author of *The Empowered Investor*
keith@tma-invest.com
Partner & Portfolio Manager
514-695-0096 (106)
Tulett, Matthews & Associates

The information presented in this guide was originally published in the 4th edition of *The Empowered Investor* by Keith Matthews

“We made the decision to invest with Keith after reading the second edition of *The Empowered Investor* in 2008 and we have never looked back. Keith and his team have helped us to surpass our financial goals through an intelligent, unbiased and transparent approach that has always put our best interests first.”

~ DR. EARL & MAVIS MORGAN
Amherstburg, Ontario

“We have been clients of Keith Matthews since 1999 and of Tulett Matthews & Assoc. since 2005. From the very beginning, Keith and TMA have consistently followed a transparent, client-centered philosophy and an approach based on index investing. Keith and his caring team treat us like family, and we trust them because we know that they will always have our best interests at heart.”

~ KEITH WILCOX & JUDY MACARTHUR
Georgeville, Quebéc

“I love our meetings. The counsel I receive is straightforward and easy to understand. I come away feeling very financially secure. For this, I thank you!”

~ JULIANA A.

Source 1 In Canadian dollars. Globally Diversified Portfolio is equally weighted with the following asset groups: Canadian (Large, Small, and Value); US (Large, Small, and Value); US Real Estate; International (Large and Mid, Small, and Value). Annualized Standard Deviation is calculated by multiplying the standard deviation of monthly returns by the square root of 12. Date range selected for the model portfolios is the longest common time series of whole years of data available. Rebalanced quarterly. Index descriptions: Canadian Large Cap is the S&P/TSX Composite Index. Canadian Small Cap is the MSCI Canada Small Cap Index (MSCI/Barra, gross dividends), January 1999–present, and Barra Canada Small Cap Index, December 1998 and before. Canadian Value is the MSCI Canada Value Index (gross dividends), January 1975–present. US Large Cap is the S&P 500 Index. US Small Cap is the CRSP 6–10 Index. US Value is the Russell 3000 Value Index. US Real Estate is the Dow Jones US Select REIT Index. International Large and Mid Cap is the MSCI EAFE Index (net dividends). International Small is Dimensional International Small Cap Index. International Value is the MSCI EAFE Value Index (net dividends). S&P/TSX data © 2018 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. MSCI data © MSCI 2018, all rights reserved. Canadian Barra data provided by MSCI Barra. S&P data © 2018 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. CRSP data provided by the Center for Research in Security Prices, University of Chicago. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. Dow Jones US Select data provided by Dow Jones Indices. Not to be construed as investment advice. Returns of model portfolios are based on back tested model allocation mixes designed with the benefit of hindsight and do not represent actual investment performance. International investing involves special risks such as currency fluctuation and political instability. Investing in emerging markets may accentuate these risks.